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**AN ANALYSIS OF JOINT VENTURES
BETWEEN THE UNITED STATES
AND THE
COMMONWEALTH OF INDEPENDENT STATES**

THESIS

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AN ANALYSIS OF JOINT VENTURES BETWEEN
THE UNITED STATES AND
THE COMMONWEALTH OF INDEPENDENT STATES

THESIS

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Logistics

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Master of Science in Logistics/Contracting Management

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Daniel L. DeMott

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Abstract

The purpose of this study was to develop insights for those who wish to engage in joint ventures with the Commonwealth of Independent States (CIS).

Over the last 70 years, joint ventures with the West have been scarce in the USSR. With the dissolution of the USSR, opportunities for commerce have greatly improved. Most Western countries are seeking to take advantage of the natural resources and untapped consumer market in the CIS. Consequently, companies wanting to engage in commercial endeavors will need current information on the different financial, cultural, organizational, and logistical issues that are peculiar to the CIS.

This research provides insights into the current dynamic environment that will be found in doing business with CIS entities. A comprehensive approach has been taken with the existing literature on past and present joint ventures between the US and the CIS. To further the understanding of the business climate, case studies were conducted. Through analysis of joint ventures, information was refined to reflect issues arising from these case studies.

AN ANALYSIS OF JOINT VENTURES
BETWEEN
THE UNITED STATES
AND
THE COMMONWEALTH OF INDEPENDENT STATES

I. Introduction

Chapter Overview

This introductory chapter starts with a short discussion of the general issue of the study followed by the specific problem statement, research objectives, scope of the research and definitions of joint venture terms. The chapter ends with an overview of the remainder of the thesis.

General Issue

Since the dissolution of the Soviet Union on December 25, 1991, the Union of Soviet Socialist Republics (USSR) ceased to exist. The Commonwealth of Independent States (CIS) has replaced the USSR, and encompasses all the republics except the three Baltic states and Georgia. This study will use the term Soviet Union or USSR when referring to events prior to the 25 December 1991 date. The CIS designation will be used for events after that date. At times, the two forms may be used in the same sentence due to

some issue starting during the Soviet time frame and continuing into the CIS era. The intermingling of terms could not be avoided and hopefully does not confuse the reader. The Baltic states will be treated separately as necessary.

Since 1987, the Soviet Union has legislatively allowed joint ventures with companies from western countries (Sherr, 1988). The conditions have been rather restrictive, such as limiting the amount of profit a company can earn. Western companies have tolerated limitations of this type for the opportunity to enter a market closed to the rest of the world for the past 70 years (Moscow, 1990). Joint ventures between the United States and the Soviet Union have had some success but have also faced numerous problems.

The original intention of this thesis was to show the feasibility of a joint venture in the military arena between the Soviet Union and the United States. After several phone calls to personnel in the Pentagon and the Department of Commerce, that idea was soon shelved for two reasons. First, there are no military joint venture programs involving the US and the CIS to study. Second, the people we initially interviewed did not seem interested in encouraging military joint ventures. Therefore we shifted to a commercial aspect with emphasis in the production environment. There seems to be a real need in this area as illustrated by the numerous problems encountered by

companies involved with joint ventures in the CIS. We believe the issues identified in this study may be useful if the US should enter into military joint ventures with the CIS at some future point.

Problem Statement

The outcomes of previous joint ventures between the US and the Soviet Union have spanned the following continuum. Joint ventures between the United States and the Soviet Union have been conceived but due to problems, not begun. They have started the actual venture, and stopped. There have been ongoing ventures and major problems occur. Finally, some joint ventures have enjoyed unqualified success. Very few of the joint ventures make it into the final category. Why they do not succeed is the basic problem this paper attempts to analyze.

Research Objective

This paper analyzes why so few joint ventures have been successful during Soviet-US business alliances. A primary use of our research is as an analysis for industries wanting to establish a joint venture with the CIS. To this end, several investigative questions will be asked.

1. What stumbling blocks and/or successes have been experienced? What are the reasons for success/failure?
2. What cultural problems exist with joint ventures?

3. Was there difficulty in establishing responsibilities for the various issues?

4. How has the conversion from the Soviet Union to the Commonwealth of Independent States affected joint venture programs?

5. What kind of logistics problems have been encountered during joint venture projects?

Scope

The literature review in chapter II gives an extensive background on joint ventures with the Soviet Union, both historical and legal. The research findings in this study attempt to blend the data found through the search of existing literature with that discovered in the joint venture case studies. Through this integration of data, this study attempts to contribute to the developing pool of information on joint ventures with the CIS.

Our list of companies for the case studies was derived from the United States Department of Commerce, CIS Division, as the Accredited US companies doing business in the CIS. We also obtained a third party list of companies from the Trade Directory (1992).

Definitions

The following terms are defined to provide a common frame of reference for the remainder of this thesis:

JOINT VENTURE - An agreement by two or more companies to pull together resources that function as a separate entity from the two mother companies.

JOINT VENTURE DECREE - A 1987 law passed by the Soviet Union Council of Ministers establishing on Soviet territory the operation of joint ventures with the participation of Soviet firms with those of capitalist and developing countries.

PERESTROIKA - The term given the political and economic climate in the Soviet Union that signifies the new "open arms" practice of the USSR.

REPATRIATE - To take the money earned from an enterprise out of the country in which it was earned.

HARD CURRENCY - Something such as coins, government notes, and bank notes, that is in circulation as a medium of exchange (in this case, useable outside more than one country).

Overview

Doing business with the Commonwealth of Independent States is a true adventure. It stretches the patience of US companies who are trying to break into the market there. There are many obstacles to overcome that impede the normal business process that US companies are accustomed to elsewhere. The foreign ideas encompassed by capitalism have proven difficult for the Commonwealth personnel to grasp. The concept of capitalism is foreign to the CIS which was based on a centrally run economy. But, it is not only their problem. The US companies need to understand a new

culture they have not had to operate in before, and go slowly in educating both parties involved. This thesis explores the dynamics of doing business in the CIS as well as differing mind-sets.

Chapter two provides appropriate background information through a comprehensive literature review. The main idea of the chapter is to familiarize the reader with the joint venture arena in the CIS, legal aspects of a joint venture, and potential obstacles encountered during operation. Chapter three describes the methodology, and Chapter four presents the interviews with US companies. Chapter five contains the interviews with the CIS representatives. Chapter six has the findings and analysis, and chapter seven completes the thesis with our conclusions and recommendations.

II. Literature Review

Chapter Overview

After an introduction, this chapter will present a history of joint ventures in the Soviet Union. It will then discuss certain obstacles that were common to companies with joint ventures in the CIS. The legal aspects of a joint venture, as well as establishing and terminating the joint venture will be discussed. Some current circumstances that exist under the new CIS will be given, then some conclusions will be drawn to complete the chapter.

Introduction

The history will include the reasons for joint ventures between the US and the Soviet Union and some of the problems encountered when trying to form such an alliance. Soviet law will be examined as it relates to business dealings with the West. Also, cultural differences will be discussed since these differences are often substantial stumbling blocks to international cooperative efforts (Heenan and Perlmutter, 1986). Some of the more prominent managerial differences will be examined as well as the action taken by Soviet and American authorities to revamp the Soviet managerial outlook.

What makes a joint venture successful? For the purpose of this study, the conditions necessary to consider a business alliance a successful joint venture are:

1. Each partner has a strength to bring to the partnership.
2. The goals of the partnership are clear, unanimously accepted, and of benefit to both parties.
3. A horizontal relationship is achieved, that is, neither partner is in charge of the venture. All decisions are agreed upon before taking action. It should be noted that a joint venture can become a Global Strategic Partnership if the partners adopt a strategy of world leadership in a particular industry or service. This is a possibility for future endeavors when the CIS becomes more economically mature (Heenan and Perlmutter, 1986).

General History

The market climate in the CIS is being written daily. Many events are changing the face of the old Soviet Union as we knew it.

The Soviet Union has traditionally been hostile to direct foreign investment (Stephan, 1990). Several compelling economic factors may have persuaded the Soviets to rethink this policy in the mid 1980s. These factors are: 1) The Soviet economy had stagnated for several years; 2) there had been no apparent growth in the Soviet Union from 1978 to 1985 (Rosser, 1990); (3) the productivity of

resources used in the economy had declined; 4) the quality of Soviet production lagged far behind quality standards in the West; and 5) Soviet technology was backwards in comparison with the West (Anders, 1989).

The cornerstone of perestroika, the Gorbachev program to revive the stagnant Soviet economy, was an investment program to modernize the industrial sector. Foreign trade and investment could play an important part in this revitalization program. The Soviet leadership began to recognize that the Soviet Union was a part of the world of nations and the Soviet economy was part of the world economy (Gorbachev, 1991). Direct foreign investment from capitalist countries became a natural extension of this cooperation. The Soviets felt they could entice some technology imports that would eventually boost their economy if they allowed investments into their country.

In January 1987, the Presidium of the USSR Supreme Soviet issued an edict authorizing joint ventures between Soviet entities and foreign companies. Under this edict, the USSR Council of Ministers adopted a decree (the Joint Venture Decree) to enable Soviet and foreign companies to establish joint ventures within the Soviet Union. The purpose of this decree was to encourage closer cooperation between Western companies and Soviet entities (Starr and March, 1989).

Since establishing the Joint Venture Decree, many other decrees governing joint ventures have been issued. This legislation has been highly adaptable to a changing environment, but is quite open to interpretation. In keeping with the Soviets' general history of changing laws, the Joint Venture Decree has been subject to change with little or no warning (Lieberman, Starr, Esser, and Waters; 1989). These changes are challenging the underlying assumptions of a joint venture.

The decree established the joint venture as a separate legal entity authorized to contract with others, and it required the parties to jointly submit the joint venture agreement, the bylaws, and a feasibility study to the Ministry of Finance. The decree required that the joint venture be self-supporting, and established a two-year tax holiday, after which the profits are taxed at 30 percent (Starr and March, 1989).

Since the adoption of the Joint Venture Decree, many Western companies have begun to consider entering the Soviet market. By the end of 1990, registered multinational joint ventures with the Soviet Ministry of Finance reached 2,500. "The majority of the joint ventures have faltered; many have not and will not commence operations," (Raiter, 1991:46). These ventures, similar to new businesses in the United States, are likely to experience a low rate of success, especially considering that these new ventures must operate

in a foreign environment subject to the volatile CIS market, law, and politics. There are no step by step procedures for becoming successful in joint ventures. Each venture presents its own unique problems and solutions with some commonality (Cooper, 1980).

Situation Review: Obstacles.

Both the Soviet Union and western countries are extremely anxious to enter joint ventures. According to Matthew Barrett, Soviets want to improve or, at this early stage, establish a capability to export goods and materials. The West wants access to an untapped Russian domestic market (Barrett, 1987). While these divergent motivations might appear to be a major obstacle, they are only part of the problem.

Numerous scholars and industrialists have provided what they think is the main difficulty with joint ventures between the Soviet Union and the West. Brady and Galuszka see the problem as a continuous restructuring of the economy. The economy is currently in a state of flux while trying to transition from a socialist to a capitalist system (1990). The mechanics of a capitalist economy are not shrouded in secrecy. The philosophy and precepts are available to any interested party. The Soviets have just run into obstacles trying to adopt them.

Financial Issues. The financial arena was a main source of contention between the Soviet and US companies. One of the disagreements was the extent to which the joint venture will distribute profits to the partners. The U.S. partner wants to start earning a return on its investment as soon as possible. It has contributed hard currency into the venture and expects the venture to generate a profit from which the U.S. partner will realize a return. The Soviet partner, in contrast, wants to reinvest the profits to the venture to expand the venture's operations. The Soviet partner can achieve its productive goals simply by the ongoing operations of the venture, irrespective of the distribution of profit. In the Soviet view, distribution of profits unnecessarily constrains the activities of the venture.

The Soviet partner does not want to declare a profit, because the two-year tax holiday commences from the date on which a profit is declared. The joint venture can postpone payment of taxes if the venture can increase expenses such as production funds or inventory, which are shown as expenses. The US partner is not concerned with delaying the declaration of profit because doing so constrains the US partner's ability to repatriate a profit (George and O'Donnell, 1991).

The devalued ruble is another obstacle. The CIS is in the middle of a debt crisis. Their deficit is 25 percent of

their GNP (Knecht, 1992:). The CIS is owed approximately \$50 billion by Iran, Iraq, Libya, and Syria. When the loans were enacted, the Soviet Union never really expected repayment in the form of hard currency. The deals were struck to further Soviet influence in these areas to offset existing US-Middle East relationships. Also, the Soviets thought they would be treated favorably by these countries with oil imports at favorable prices. This never occurred. The Soviet Union has tried to recoup payment in cash since their influence in these areas is no longer a high priority. To date, none of the countries mentioned has agreed to a cash repayment (Fuhrman, 1989).

Since rubles are not convertible, the CIS needs to export goods in exchange for convertible currency. The CIS is not helping the situation as they are still printing rubles. This excessive printing of currency is driving the ruble's value down (Knecht, 1992).

The current financial condition is bleak. Articles since the conversion to the CIS are not filled with much promise to come out of the economic crises. "Reducing weapons will be a picnic compared with rebuilding Russia's economy" (Aid, 1992). They are near, if not in hyperinflation. In February 1992, Russia signed a memorandum of understanding (MOU) with the International Monetary Fund (IMF) resulting in economic reforms in Russia.

This MOU allows the release of \$24 billion in aid from Western countries to the troubled Russian economy.

Due to the hyperinflation, Russia is likely to miss many of the targets it promised to meet with the IMF, such as the freeing of domestic oil prices. Now the IMF is contemplating blocking the loans to Russia. Without these loans, Russia would be forced to loosen its monetary policy. The loosening would have an adverse affect on the overall economy. It would threaten to run Russia into a deeper recession than it has already. The decision to postpone oil prices is also a mistake. This decision will cause labor unrest in the oil producing regions, and delay economic adjustment. In addition, this delay just keeps alive the gas guzzling industries that should be shut down anyway (Aid, 1992).

During the G-7 (United States, Germany, Japan, Britain, France, Italy, and Canada) meeting in Munich, Germany, the week of July 9, 1992, the leaders gave their blessing to the \$24 billion package to Russia. The G-7 did not, however, give the Russian republic what it sought most-a two year deferment on \$70 billion in foreign debt. Mr Yeltsin mentioned that he would be willing to "exchange buildings, property, minerals, and oil reserves in debt-for-equity swaps" (Deal, 92:1).

The US has hurt the Russian economy. Even though President Bush offered Russia the most-favored nation

trading status, it assessed a 100 percent increase on duties for one of the few products Russia can export, uranium. This uranium was the former Soviet Union's third largest export (Aid, 1992).

There is some hope. On June 15th, 1992, Mr. Yeltsin signed two decrees that helped his country's forward movement. The first made provisions for Russian companies to go bankrupt. This would allow for Russians companies that are draining the economy to be shut down, or sold. Foreign investors could be included as purchasers for these unwanted plants. The second decree gave private companies the right to own their own land. This action will further move the economy towards that of Western countries.

A estimate for a comprehensive plan for Russia alone, including a stabilization fund, balance-of-payments support, and food aid, should cost \$15 to \$20 billion in 1992. Help for other republics would add \$10 to \$15 billion more. This aid would not produce an overnight turnaround to the market economy, but it would allow for the development of thousands of new, small, private businesses. This same scenario happened in East Germany, and is likely to occur in the CIS as well (Life, 1992).

Cultural Issues. The Soviets refer to the Western partner's lack of sensitivity to cultural differences as a major concern. The US partner wants to operate as if it were in a Western country, which the Soviets view as an

unrealistic outlook. The Soviets often dismiss the US partner's suggestions because the US partner does not understand the ways of the Soviet system (Rosser, 1990).

As was mentioned earlier, the Soviets do not have a capitalist view of competition. They are used to getting requirements from the state and scheduling workload to meet that demand. Having to operate in a competitive environment and plan for changes as problems arise will be difficult.

To combat this new environment, the Soviets have decided to convince the individuals who were running particular ministries before privatization attempts to stay on to help with the privatization efforts. The rationale is that these people know the industry and the learning curve is lessened. Unfortunately, simply changing a title from Minister to CEO is not enough. Most of these new CEO's do not understand the environment in which a capitalist system will work (Knecht, 1992). Universities will have to revamp their management courses to reflect the new direction of the economy (Yakovlev, 1992). This will take decades to happen, therefore, understanding why joint ventures in the CIS are having problems is important.

Current cultural issues are exploding. The transition to the CIS saw vast changes. Church bells rang for the first time in years on May Day 1992, calling Russians back "to a motherland with room enough for God and man" (Harrington, 1992:21A).

Free access to Western items is met with trepidation. US West is engaged in a joint venture for their cellular phone system. The company representatives carry units on the streets of Moscow, which creates perplexing looks when they ring. After all, Russia is a country where there are still no phone books (Harrington, 1992).

The concept of marketing is completely foreign to the Russians. The customer took what the state had, no competition, so there would be no brand jumping as in America. So many items that the US takes for granted are now coming into the grasp of these eager people.

Organizational Issues. One of the obstacles to the Soviets adopting a Western economy was the historical Soviet mind-set. Soviets have not yet grasped the concept of competition (Dyson, 1989). Many US managers complain of the Soviet's lack of understanding of Western management styles and techniques. The Soviets view a business plan as a waste of time (Boznak, 1991). One of the reasons for the Soviets' lack of responsiveness might be the dual allegiance under which they operate. The Soviets in the joint venture report to the Soviet partner, and to the joint venture.

Barrett points out that the USSR has insisted that Soviet labor laws apply to all joint ventures. This means employees cannot be fired for ineptitude. Also, socialist pay structures are still in effect which rules out pay as an

incentive to do better because salaries are very low by western standards (1987).

Another area of concern is the issue of personnel. The Soviet partner is generally responsible for hiring employees. The US partner sometimes cedes this authority to the Soviet partner; other times, the Soviet partner assumes this authority, irrespective of the U.S. partner's input. The Soviets were also dissatisfied with the type of joint ventures offered by Western countries. Igor I. Faminski, a member of the State Foreign Economic Commission in Moscow said, "We are not absolutely happy. Very few [joint ventures] are in machine building and less than ten percent are in consumer goods" (Brady and Galuszka, 1990:59). The Soviets saw too many service oriented joint venture propositions. They wanted consumer goods so they could become more independent of foreign produced items and have the option to buy domestic consumer goods.

There is also the problem of partner roles. The US companies recognize the critical role that their Soviet partners play. The Soviet companies do not attach the same importance to the US partner. The Soviet partner operates under the Soviet model, in which the authority to run an enterprise is concentrated in the general director. Until December 1988, a Soviet was required to be the general director of any joint venture. Even after December 1988, a

Soviet general director is the predominant model (Sherr, 1988).

Soviet managers are not attuned to participative management techniques prevalent in the US. Not surprisingly, US managers of the joint ventures expressed frustration that they do not have input into the decision-making process as might be allowed or encouraged in a US company (Reinsch, 1991). Yet, it is precisely the Western manager's business experience in a capitalist environment which the Soviets need.

In addition, the strategic direction of the joint venture has raised difficulties. Often, the Soviet partner wants to expand the activities of the joint venture into unrelated activities. Since the Soviets view themselves as the experts in their own system, they often believe the joint venture is well-positioned to capitalize on emerging opportunities in unrelated industries.

The US partner wants to resist diversification for several reasons. First, the US company wants to minimize the risk and does not want to overextend itself. Second, the US company is unfamiliar with other areas into which the Soviets want to expand. Third, the US company wants to move slowly in this market, and observe the extent to which the relationship with the Soviet partner develops. Finally, they believe that companies that diversify into unrelated

industries perform demonstrably worse than firms that compete in one industry (Rosten, 1990).

Current issues in the organizational realm are sketchy. The ministries by which the Soviet Union was governed are under siege. More than 80 ministries have folded already. More will close, and some will be taken over by the Russian government. The issue of Soviet embassies being wholly taken over by Russia, is up in the air. The other republics are giving up the central bank to Russia, so it appears logical Russia will and is assuming the central role in most issues.

What is vitally important, is the status of over 15,000 treaties the Soviet Union signed with other countries. How the CIS resolves this issue is foremost in the minds of the US. It would be simple enough, if the CIS just took over the Soviet's obligations towards these treaties, however, the individual republics do not want that. The three most important treaties are: START-cutting long range nuclear arms, CFE-conventional strength in Europe, and the NPT-nuclear non-proliferation treaty, are on shaky grounds because of the nuclear ownership problem facing the CIS.

The four nuclear republics have signed a mutual defense treaty which softens the fears of the US. This arrangement replaced Mr Gorbachev as the Commander-in-Chief with a military figure. This person in turn reports to a

collective leadership of the presidents of the four nuclear republics, with each having a veto over the others.

Logistics Issues. The area of logistics proved to be quite challenging, after an extensive search, we could find little documentation in the area of the Soviet logistics system. According to Thuermer,

The former Soviet Union is a logistical nightmare of insufficient road and rail systems, unnavigable waterways, bottlenecked ports, little or no warehousing, even less refrigeration, poor communications systems, and, worst of all, bureaucratic officials operating with little or no procedural policies or motivation--unless there's a payback. (1992:10)

With the aid of current information the logistics sphere should become better known.

Legal Aspects of Joint Ventures in the Soviet Union

The Soviet joint venture law is an "...example of the closed model for Western equity investment in a socialist economy" (Lieberman, Starr, Esser, and Waters, 1989:13). If Soviet citizens wish to establish a private business, they must do so in the form of a cooperative (Reinsch, 1991). The joint venture is expressly exempt from the central planning regime. Due to this exemption, the joint venture is not subject to price controls and production quotas. The old five year plans under which the Soviets operated used estimated requirements from the joint ventures to do their planning. Initially, joint ventures could only trade in the domestic economy. Now, joint ventures have

been allowed to engage in foreign trade also (January 1987 Decree).

The various Soviet decrees and regulations only provide a broad framework for joint venture activities. The parties must agree on the character, operation, and management of the joint venture. The January 1987 Decree expressly provides that the joint venture has a separate legal personality from the parties and may contract, assume obligations, and sue or be sued in its own name (January 1987 Decree).

Establishing a Joint Venture. The Soviet Council of Ministers is involved closely throughout the process of negotiating and establishing the joint venture (Hober, 1988). A joint venture may be formed by one or more Soviet parties and one or more non-Soviet parties. The Soviet party may be either a State enterprise or a private cooperative. The US companies seeking to engage in joint ventures will do so through the Soviet Ministry that has responsibility for the applicable industrial sector. With the changeover to the CIS, direct contact with the CIS enterprise should be more commonplace (Hober, 1988).

Once a suitable partner has been located and a tentative decision made to go ahead with the joint venture, the parties will usually sign a letter of intent or a protocol. The protocol typically outlines the nature of the proposed business, the contributions each party proposes to

make, the parties' understandings of how the joint venture will be structured and managed, and each party's obligations following that agreement. This protocol is not legally binding on the parties, but, as in the process of negotiating joint commercial arrangements in the West, both parties try to give some of the provisions legal force (Hober, 1988).

After signing the protocol, the parties must prepare a feasibility study. The feasibility study serves two purposes. First, the study allows the parties to explore and confirm the viability of the proposed venture before committing themselves. Second, the feasibility study must eventually be submitted in support of the application for approval of the joint venture, and will be important in convincing the authorities that the joint venture should be approved. The 1987 Decree provides little guidance on what the feasibility study must cover (Hober, 1988). The authorities will accept the United Nations Industrial Development Organization's model feasibility study developed under the UN guidelines (ICC, 1988).

The feasibility study usually contains the following:

- 1) specifics of the contributions to be made by each party and the valuations put on them;
- 2) indications that the capitalization is adequate for the operation;
- 3) analysis of the potential market and projected sales and income, including hard currency earnings;
- and 4) indications of

which raw materials or components will be obtained within the Soviet Union and which will be imported (Hober, 1988). The parties' final agreement usually will be set out in two separate documents, the Charter and an agreement to establish the joint venture.

The Charter broadly resembles a certificate of incorporation or certificate of limited partnership and serves as the document of record evidencing the joint venture's creation. The Charter must specify the joint venture parties, the objectives and powers, the nature of the business, the initial capitalization and the amount and form of each party's contribution, the principal officer, the composition, structure and respective powers of the board of directors and management directorate, matters which require unanimous board approval, and the procedures for dissolution (January 1987 Decree).

The joint venture agreement, similar to a shareholders' agreement, deals more with the management and operation of the joint venture and the rights and obligations of the parties. This agreement sets the representations and warranties each party has made to induce the other to enter the joint venture, the distribution policy, the duties and powers of directors and officers, the establishing of various funds and the amount and mechanism for contributions to the funds, the basic conditions of employment with the joint venture, and the continuing responsibilities of each

party to the joint venture. Some of the responsibilities are the Soviets' obligation to supply raw materials and the US company's obligation to distribute the finished product in the West (Hober, 1988).

After the joint venture documents are concluded, the documents must be submitted to the Soviet authorities for approval. The Soviet authorities will inquire whether the joint venture is feasible and whether it meets certain objectives (ICC, 1988). The USSR Council of Ministries has stated these objectives as: 1) meeting domestic requirements for raw material and financial resources to the Soviet economy; 2) attracting foreign technology, management expertise, and material and financial resources to the Soviet economy; 3) expanding exports and reducing superfluous imports; 4) stimulating research, design, engineering, sales, marketing, and financial expertise; and 5) developing service industries, such as tourism (January 1987 Decree).

The approval authority for the joint venture was required at high levels, however, due to complaints about delays, approval powers are given to Republic authorities and some city officials when the Soviet partner comes under their direct supervision (Starr and March, 1989).

Once approved, the joint venture must be formally registered with the Department of State Revenues of the All-Union Ministry of Finance. The registration will be

rejected only if the documents do not comply with the formal legal requirements for formation (Hober, 1988).

Termination of a Joint Venture. A joint venture may be terminated in two ways. First, the USSR Council of Ministers may terminate a joint venture whose activities are inconsistent with the objectives defined in the foundation documents. Second, the parties can agree under what other circumstances the joint venture may be terminated (January 1987 Decree).

Summary

The purpose of this literature review was to analyze the environment in which early joint ventures between the US and the CIS have operated. To meet this goal, the Soviet, as well as the CIS, financial, cultural, organizational, and logistical issues were addressed. Some additional literature dealing with the legal aspects of the joint venture itself were discussed to get the flavor of this peculiar environment. This review served two main purposes. First, a lead-in for the case studies has been achieved. Second, an overall analysis of the condition of joint ventures with the CIS has been furthered.

III. Methodology

Chapter Overview

This chapter identifies the methodology for collecting and analyzing data for this thesis. The chapter presents an explanation of the method of approach, justification of the approach, analysis procedures and potential limitations that have been identified.

Introduction

While there is ample information on engaging in joint ventures with the Soviet Union, there is an apparent lack of consolidated sources in which to have an analysis that details all or most of the problems that can be generated by a joint venture with the USSR. Therefore, this study attempts to describe problems which have been encountered by joint ventures and increase general awareness of the impacts that these factors may have on joint venture success. The research was based on two primary methods: literature review, and case studies via personal interviews.

Literature Review. Literature review "is often defined as the writing of an integrated narrative about some aspect of the past based on critical analysis and synthesis of sources" (Lang and Hess, 1984:64). This method is further defined by Borg as "the systematic and objective location, evaluation, and synthesis of evidence in order to establish facts and draw conclusions concerning past events"

(1971:260). Using these definitions as guidelines, a comprehensive literature review for supporting data was conducted including searches through professional journals, research reports, government documents, dissertations and current newspaper articles. This literature review provided background information concerning joint ventures and obstacles met by these ventures. It also identified aspects of starting and terminating joint ventures in the CIS. The literature review formed the basis for the investigative questions and the interviews.

Case Studies. Merriam discusses the role of case studies and states,

It offers insights and illuminates meanings that expand its readers' experiences. These insights can be construed as tentative hypotheses that help structure future research; hence, case study plays an important role in advancing a field's knowledge base. (1988:32)

A case study is used to find out how one variable affects another, and is therefore termed causal. The other form of analysis, statistical, "attempts to capture adequately the characteristics of a population by making inferences from a sample of items" (Emory and Cooper; (1991:142). The hypotheses in the statistical arena are looked at from a purely quantitative standpoint, while "case studies place more emphasis on a full contextual analysis of a limited number of events or conditions and their interrelations" (Emory and Cooper; (1991:142).

Personal Interviews. Our interviewing process was accomplished in stages. The interview questions were devised from the investigative issues. All companies on the list of accredited companies doing business with the CIS were then consulted. Each of these companies were called to see if they were actually involved in a joint venture with the CIS or not, and in what aspect. Since the phone numbers listed only the main switchboard of these companies, some investigative calling was needed to find a person knowledgeable of any joint ventures with the CIS. Once the knowledgeable party was found, a short synopsis of our research purpose was provided, and we then asked if they would be receptive to a fifteen minute interview. This interview was based on advance questions to facilitate the actual interview and allow the interviewees to prepare properly. To those that responded in a positive manner, we faxed them the questions (Appendix A). A follow up phone call was made to ensure they received the questions, and then an appointment was made for the telephone interview to take place.

During the interview, the flow followed the pattern of the advance questions, with the interviewee discussing their particular experience with a joint venture. The individual was then sent a follow up letter thanking them for their participation in our research project (Appendix B).

Justification of Approach

Qualitative and quantitative methodology is the subject of much debate in the social sciences. Glaser and Strauss "seek ... to further the systemization of the collection, coding and analysis of qualitative data for the generation of theory. We wish particularly to get library and field research off the defensive in social research, and thereby encourage it" (1967:18).

When you are researching in a field that changes day to day, you need to sort out the few similarities that ring true across the respondents. With the number of variables in the CIS, it is important to fully discuss the environment in which each respondent operates. Case studies adapt themselves more to this changing environment, and to the depth of study necessary to initially understand this environment which is new to Western managers.

There is a structure presented by Yin for the use of case studies based on: 1) the form of the research question, as to who, what, where, how, and why; 2) the requirement of control over behavioral events; and 3) the focus on contemporary versus historical events (1989). "A case study has a distinct advantage when how or why questions are being asked about contemporary events over which the investigator has little or no control" (Hull, 1992:58).

Potential Limitations

To have an informative study available to a wide range of companies, this thesis was not limited to a specific discipline. At first it concentrated on manufacturing aspects, but most of the responses from the first companies were issues that could be common to any company doing business in the CIS. Thus, it was widened to include service oriented companies.

There is a problem that arises as to the validity of responses based on the sample size chosen. Eisenhardt suggests that while there is no ideal number of cases, between four and ten usually work quite well. Less than four cases does not lead to a strong conclusion about the research objective. More than ten cases tends to overpower the researcher, and the reader (1988).

Since the CIS is quite young, there is a possibility that much of this data will become obsolete shortly as the new republics come into their own governance. However, since the republics have experience under the old Soviet system, it is logical that some semblance of that system will carry over to the republics. The findings and analysis of this thesis should be interpreted with these limitations in mind.

IV. Case Studies

Chapter Overview

This chapter synthesizes the experiences of seven US companies currently involved in ventures with the CIS. It will cover the companies' background, financial, cultural, organizational, and logistical environments.

Introduction

Many insights, normally lost in a maze of paperwork and policies, can be gleaned from direct contact with individuals in U.S. firms currently engaged in ventures with the CIS. The seven interviews contained in this chapter are candid assessments of seven companies' experiences while dealing with the CIS and the old USSR government. One of the companies contained here has been involved in ventures in the CIS for over 63 years. Another company opened up an office in Moscow in 1991. The breadth of the types of companies is believed to represent a good cross section of U.S. businesses operating in the CIS.

Control Data Corporation

Background. Information on Control Data Corporation (CDC) was obtained from a telephone interview with Robert Nenovich, Program Manager for Technology Transfer. Control Data Corporation has been doing business in the CIS since

the mid 1960's selling mainframe computers. Over the last two years CDC has sold \$32 million of software and peripherals in the CIS. At present, CDC has two ventures and an ongoing direct sales program. The ventures consist primarily of low end work stations which are considered old technology. CDC is also sharing their manufacturing and distribution expertise. CDC is willing to transfer older technology with the expectation that the CIS personnel can catch up to modern technology with some training by CDC.

Financial Issues. Russia is very slow in paying off its bills. As a result, CDC has suspended any plans to expand their current ventures. CDC feels the EXIM Bank will soon come to the aid of their and other ventures in the CIS. The EXIM Bank is in the business of guaranteeing loans for developing countries. Nenovich feels the CIS's poor economic condition qualifies it for this type of loan. The CIS, however is slow to enter into an agreement with the EXIM Bank. The CIS is hesitant due to their inability to pay back the loans in hard currency (Browning, 1992).

Cultural Issues. CDC primarily employs office workers from the CIS and has had no trouble with either the quantity or quality of their work. The number of employees was not readily available.

Organizational Issues. CDC is not planning to take 100 percent ownership of their ventures but instead are speaking with a third party in Switzerland that can convert rubles to

hard currency. The proposed makeup of the partnership would be CDC with 30 percent, the Swiss with 20 percent, and the remaining 50 percent would remain with the CIS entity. Future ventures, if any, will be organized on a case by case basis as to whether or not the venture will be 100 percent owned by CDC or split among other partners.

Governmental Issues. CDC is having difficulty finding the proper office to speak with in the Russian republic on matters of their ventures. As the government decentralizes, authority shifts which can produce an entirely different office and personnel than were dealt with on previous ventures. When this happens, CDC must start over with proposals, bank statements, and company information. CDC has made contingency plans for this occurrence by periodically assembling application packages that can be used if the situation warrants a fresh start. While anticipating and acting to lessen the effects of starting over is a prudent policy, there is still the impact of wasted time in doing so. Under normal conditions a firm would not have to get bogged down with such a concern.

Logistics Issues. CDC uses only small components therefore doesn't get as involved in shipment problems as other firms that ship bulk items. Small item shipment and receipt poses no trouble for CDC since normal airlift into Moscow is adequate.

Chilewich Corporation

Background. Information on the Chilewich Corporation (CC) was obtained in a telephone interview with Gary Gailes, Vice President. The Chilewich Corporation is an agricultural commodities firm and has been dealing with the Soviet Union since 1929. Their first ventures consisted of exporting animal hides for production in the U.S. In the 1950's, CC entered into joint ventures to produce and sell food and feed commodities in the USSR. Recently, granaries and cattle feed yards have been built by CC jointly with the USSR. CC has also invested in oil drilling rights in Zakuley in the western part of the Russian republic.

Financial Issues. CC has taken a long-range view regarding profits. All profits are kept in the CIS for reinvestment into the venture. Also, money kept in the CIS will help bolster the sagging banking structure. CC feels the ruble will be convertible by the end of calendar year 1992. This will alleviate the currency conversion difficulties facing current ventures in the CIS. Following the conversion, Chilewich's plan is to keep as much money in the CIS as possible to ensure a sound banking structure in the CIS.

Cultural Issues. The Soviet worker is very different from his western counterpart. There is little incentive in the USSR to produce a quality product or services. Producing in large quantities has been a practice that

resulted from the government trying to keep its citizenry employed at any cost. Often, production far exceeded the quantity needed to meet demand as to keeping a stable work force. CC's challenge is to educate the Soviet work force in the ways of the western work ethic and to introduce western management theories to the middle and upper management levels.

Organizational Issues. One year ago Soviet law mandated that a foreign company could not own any more than 49 percent of any venture. Today, a foreign company is allowed unrestricted ownership of any venture. CC has taken advantage of this legal relaxation and now owns 100 percent of their venture involved in selling agricultural goods and services in the CIS. This venture no longer falls under the realm of joint ventures. Their other ventures remain under proportional ownership. Under the former government, CC had an on site management representative but he was required to report to a board of directors made up of Soviet industrialists. This requirement no longer exists.

Governmental Issues. CC has had difficulty in identifying key decision makers in the CIS. According to Gailes, "the decision making chain was hurt by the dissolution of the government." Also exacerbating the situation is the attempt by some of the old guard to hold onto their power in the restructured government. These individuals are slowing the government's move toward a

democratic and less-bureaucratic machine by trying to maintain as much of the red tape as possible in matters of commerce with foreign countries. On the bright side, CC has come across a few young, energetic leaders in industry who are anxious to embrace the new order but are temporarily stifled by the slowness of the governmental change.

Logistics Issues. CC now finds it necessary to travel to the different new republics to transact business. Currently, CC has joint ventures in two republics, Russia and Kazakhstan. Prior to the dissolution of the Soviet Union, business could be conducted from Moscow and maybe a few major Soviet cities.

CC considers the Russian ports inadequate because of poor storage facilities and over crowded docks. As a result, CC uses Baltic ports, primarily in Latvia, which have better storage facilities and less crowded ports. From the port, goods and materials are sent via rail because the highway system is in poor condition and will not support the heavy truck traffic. The highway routing system is inadequate in that it does not always go where the trucks must go; consequently, rail is often necessary as a supplemental mode of transportation. In some cases, the number of rail cars available does not meet the requirements but it is still the preferred method of transportation.

Conoco, Inc.

Background. Information on Conoco, Inc. was obtained in a telephone interview with David Roylance, Coordinator for Special Projects for Russia. E.I. DuPont Company, Incorporated is the parent company of Conoco, Inc. (CI) and has been involved with ventures in the CIS since 1974. CI established an office in Moscow in 1991 to oversee their oil exploration and drilling operations. CI has one venture at present and plans to place all future ventures under this current one. It is felt that this will speed up the venture process by negating the need to start each application process from square one. Also, CI decided to operate only in the Russian republic since it is the largest of the republics and is the most organized.

CI is involved in three types of endeavors under the one registered venture. The first endeavor is called incremental oil. In this type of venture, CI assists the host country in further drilling of existing oil wells. Any oil found after CI intervention is split evenly between CI and the CIS entity. The second type of enterprise is exploration, that is locating possible sites for drilling. The third and most important undertaking for CI is field development. This consists of drilling and laying pipelines in underdeveloped oil fields. CI feels this type of venture has the most to offer in profits since the exploration has already been completed and all of the profits from the oil

that is obtained from the field will be split among the principals.

Financial Issues. Repatriation is something CI has not yet seriously considered because profits have been slow in coming. The decision on how much repatriation, if any, will be reviewed when the economic conditions in the CIS settle down.

Cultural Issues. The CI representatives find the CIS workers to be very well-educated and proud of their capabilities. They are also very willing to learn the ways of capitalism. Most of the people employed by CI have engineering backgrounds and are now being taught various management theories prominent in the west but as yet unknown in the CIS.

Organizational Issues. Although the CIS has allowed 100 percent ownership of joint ventures, the agreement must be made with the republic in which the venture is to take place. Additionally, the legal structure has not yet caught up to the new 100 percent ruling. Legally, a western company cannot exercise full ownership of a venture but realistically they can since the CIS legal system is trying to accommodate this new rule and will, soon, catch up to the legislation.

Governmental Issues. Prior to the breakup of the Soviet Union, CI found the venture application process to be a plodding exercise starting at the top of a particular

agency and sequentially working down to a lower level. In the newly formed CIS, negotiations must happen at many levels simultaneously. There are few, if any, individuals in the CIS who can single-handedly approve a western venture but there are numerous people in different agencies who can kill a deal simply by withholding their approval. This makes for a very tenuous application process.

Logistics Issues. CI is finding trouble in all types of transportation modes in the CIS. Aeroflot is the only choice for airlift into Moscow. The CIS asks that their national airline be used to help bolster the economy. Rail transportation is sometimes lacking because of the frequent unavailability of rail cars and the unreliability of railroad time schedules. Ports in the CIS are crowded and have inadequate facilities for storage of goods awaiting transportation to their final destination. The majority of the storage facilities at the various ports are government owned and unavailable for private use. The storage facilities that are privately owned are, mostly, products of joint ventures. The warehousing joint ventures have not had a chance to construct enough warehouses to handle the anticipated traffic. Roylance believes that in time this problem will be remedied assuming the ventures remain viable.

Cameron Iron Works

Background. Cameron Iron Works (CIW) is a subsidiary of Cooper Industries. Information on CIW was obtained in a telephone interview with Calvin Remmert, Manufacturing Manager for Russia. CIW has been in the CIS since 1971 and is currently in two republics, Russia and Kazakhstan. Their ventures center around valve manufacture for underground pipelines. CIW is transferring valve, pipe, and drilling equipment manufacturing technology to the CIS through the Ministry of Oil and Gas which is CIW's partner in their ventures.

Financial Issues. CIW's owns 50 percent of their ventures with the other 50 percent owned by the Ministry of Oil and Gas. When the current ventures started CIW provided the technology and \$1.25 million. The CIS provided the balance of the funds necessary. The CIS had promised to provide \$4.5 million toward the ventures which was reduced to \$2.5 million. None of the money has been seen to date. When profits are realized, CIW will repatriate their profits according to its ownership percentage. CIW feels confident that the ventures will be productive and that the CIS will honor its debt since a letter of credit has been signed with the Ministry of Oil and Gas guaranteeing all credit.

Cultural Issues. CIW is impressed with the CIS blue collar workers. They are anxious to produce quality work. The management and administrative expertise of the CIS

management is sorely lacking. CIW has undertaken an education program to expose the CIS management and administrative workers to western management methods. CIS employees are sent to CIW's plants in either Scotland or France to receive training. The people being sent are usually young (35 years old or less) and judged by CIW to be energetic and eager to learn.

Organizational Issues. CIW owns 50 percent of their ventures in the CIS with the Ministry of Oil and Gas owning the other 50 percent. No other proportional arrangement has been discussed between CIW and a CIS entity.

Logistics Issues. CIW has found that they are having to import much more than they had anticipated. For example, pipe and welding consumables are scarce and must be imported. Office supplies and hand tools are also scarce. On numerous occasions Russians employed by CIW have been sent on buying missions in the Russian city of Samara to find badly needed items. When they return with the requested supplies, they are extremely proud of their accomplishment and are treated like heroes. Furniture must be imported from Scandinavia because Russian furniture is very poor.

Acquiring a telephone is very difficult in the CIS. There are few phone numbers in the CIS therefore one often finds working through proper channels unsuccessful. On one occasion, a representative of CIW was able to locate,

through a friend of a friend, a Russian company with a phone number it no longer needed. The company was willing to bargain for the lease of its phone number. The CIW representative found that the Russian company was interested in a facsimile machine. As a result, a facsimile machine was purchased in Germany and later leased to the Russian company in exchange for lease rights to the extra telephone number.

Trucking is the primary mode of transportation for CIW. Most of the supplies needed are shipped by truck from either Scotland or France using various ferry systems. Shipments from either country take approximately 15 days to arrive on site in Samara. CIW thinks this is a schedule with which it can live.

Dow Chemical Corporation

Background. Information on Dow Chemical Corporation (DCC) was obtained in a telephone interview with William Cornelius, Director of Trade Policy. Dow Chemical Corporation began a \$1 billion chemical complex venture in Shevchenko in February 1989 which was completed in January 1990. The materials to be manufactured in the plant are of a proprietary nature and would not be discussed by DCC representatives. In 1989, DCC had gross sales in the USSR of \$125 million.

Financial Issues. At the time of the interview Cornelius said DCC would insist on owning 100 percent of any

venture and would not agree to any plan that would prevent DCC from expatriating all the profits if so desired. Since that time the CIS has agreed to allow 100 percent ownership and unrestricted expatriation of venture profits in proportion to the extent of ownership in all ventures with western companies.

Cultural Issues. Chemical plants are not labor intensive. The positions filled with CIS employees are the chemical engineering positions. According to Mr. Cornelius the CIS has always had adequately trained and educated chemical engineers. DCC is not concerned with workers below the engineer level because there are so few lower level workers required at the plant.

Organizational Issues. DCC owns or will shortly own 100 percent of its ventures in the CIS and will therefore no longer consider their ventures joint from the standpoint of ownership. It will, however, still be employing CIS citizens and from that standpoint, DCC considers the chemical plant a joint venture. This view of joint ventures may suffice if the technology transfer were more open, however DCC has not yet agreed on a technology transfer scheme and sees protection of its technology as paramount in the venture.

Governmental Issues. DCC has found that not all Ministry positions have been filled and the process of filling them is moving very slowly. This makes it difficult

to know who to contact about current or proposed ventures. In May 1991, a Chemical Ministry was established; however even when a ministry is set up, its structure, procedures, or personnel may change making it hard to build on past dealings. When changes like these occur, the process may have to start from the beginning.

Logistics Issues. DCC has not been concerned about the shipments and receipts of raw materials since the CIS is responsible for these goods. Of major concern to DCC has been the living conditions and communications systems in the CIS. DCC is finding it difficult to get American workers to go to the CIS on a semi-permanent basis (one or two years) because of the living conditions there. Sometimes, Americans are placed in new apartment buildings that are cramped and without water and/or electricity. This situation is simply unacceptable to American employees. Also of concern is the annoyance of the phone system in the CIS. Many times a call from one side of Moscow to the other can be an adventure. One may either get the wrong party, get cut off, or simply end up lost in the system. Facsimile machines are affected by this communications system as are computer modems. Many of the technologies Americans take for granted are rendered useless. Although this is usually more an annoyance than anything else to most Americans, it can, in time, become a major factor in whether a company will conduct business in the CIS or locate elsewhere.

Honeywell, Inc.

Background. Information on Honeywell, Inc. (HI) was obtained from a telephone interview with Alfredo Maselli, Director of International Division. HI established an office in Moscow in 1974. Currently HI has ventures in Russia and Kazakhstan. These ventures have been in place since 1988 and involve the assembly of process controls which are used in the controlling functions of hydraulics, computers, petro-chemical devices, and various other types of computer-driven machinery. The manufacture of these items is being accomplished in the US and Japan.

Financial Issues. The venture is a 50-50 split between the CIS and HI. With the poor economic conditions in the CIS, HI has to be selective when entering into a venture. The partner's ability to carry its share of the financial burden is a major factor. If a financial contribution to the partnership is not possible, the proposed partner may have something else to offer the venture such as raw materials, or manufacturing facilities. In this case, HI may put in more than 50 percent of the capital. HI has always been paid in a convertible currency, so the convertibility of the ruble has not been an issue. With the changes now taking place, the conversion rate could become a problem if not equivalent to the current rate they are getting. As economic reforms take hold, HI feels the ruble

will solidify and they will no longer have to repatriate their share of the profits in search of hard currency.

Cultural Issues. The CIS is first class in the technical education offered in its universities. There is no dearth of technical education according to HI, only a lack of technical experience. Within a couple of years, Maselli feels the CIS will achieve technical independence assuming they receive the proper training.

Organizational Issues. HI's goals are strictly financial. They want to tap a large market and make a lot of money in the process. The goal of the CIS, however is to obtain the technology to become self-sufficient in a global market. They want manufacturing and production capabilities along with western management expertise. At present, HI is not heavily involved with technology transfer to their partner beyond the component assembly stage. No plans for the expansion of technology transfer were available. The division of the Soviet Union, according to HI, is still somewhat centralized. As such, the numerous new ministries that have been set up by the CIS government have no real authority. This authority and power still lies with a centralized government.

Logistics Issues. There are no raw materials needed in the HI ventures that cannot be obtained from the Russians. The CIS is rich in agricultural and mineral resources. The phone system is still perplexing to HI's American employees.

Originally, when the HI employees went to Russia, each hotel room had its own phone number. There was no switchboard at the hotel, consequently, if one didn't have the phone number of the person staying in the hotel there was no way to contact him or her. This situation is believed to still exist at many hotels in the CIS.

Monsanto Company

Background. Information on the Monsanto Company (MC) was obtained in a telephone interview with Fred Stokes, Director of Policy Planning. MC has been doing business in the CIS for 35 years. The current ventures include the production and sales of agricultural herbicides and the joint establishment of set-up farms. These set-up farms are designed to transfer the technology associated with the production and distribution of herbicides. MC is also transferring the technology needed to produce chemical pharmaceuticals. A direct sales program has also been established in the CIS. The number of ventures currently stands at 12 and are located in the Russian and Kazakhstan republics.

Financial Issues. MC is still trying to determine the repatriation rate, if any, that will be used in the future. Money made in the CIS may be kept there to bolster the banking system, however, the volatility of the economic situation makes it too early to formulate a definite plan.

At present, everything sold to CIS enterprises is sold on credit. So far, the CIS companies have been very slow to pay citing money flow problems as the cause.

Cultural Issues. MC has not run into any cultural problems that are worthy of note.

Organizational Issues. According to MC it is too soon in the CIS's economic development to discuss the percentage of ownership by each partner. With the relaxation of the ownership rule precluding a western company owning more than 49 percent of a venture, the topic of proportional ownership will be raised by MC soon.

Governmental Issues. In transitioning from a highly centralized government to a decentralized government, MC has found that identifying the office or person with whom to deal can be extremely frustrating. The CIS bureaucracy has recognized this and is trying to recentralize their economic decision-making.

Logistics Issues. One problem that continues to plague MC is the inability of the CIS companies to get raw materials on a regular basis. This inability affects the distribution side of the venture and wastes money in facilities and personnel when an order is left unfilled.

VI. CIS Interviews

Chapter Overview

This chapter synthesizes interviews with two officials from two of the CIS republics; Russia and Ukraine. The same questions asked of the U.S. company representatives were asked of the CIS representatives.

Introduction

Hearing the experiences of the U.S. companies as they try to either maintain, expand, or establish ventures in the CIS is of value since experience is a good teacher. It is, however, both fair and productive to hear the CIS's version of these ventures. The US wants access to CIS domestic markets while the CIS's main interest lies in export potential and western technology (Cornelius, 1992).

The CIS is being inundated with joint ventures other than those the CIS would prefer. Igor Faminski, member of the State Foreign Economic Commission, says, " We are not absolutely happy. Very few [joint ventures] are in machine building and less than 10 percent are in consumer goods." Hotels and consulting firms are not what the CIS economy needs (1992). In this chapter Sergey Dmitriev, a senior analyst at the Russian Trade Mission and Marta Farion of the American-Ukrainian Business Council were asked to respond to

the same questions asked of U.S. company officials regarding U.S.-CIS ventures.

Sergey Dmitriev

The application process for ventures in the CIS is much more streamlined than under the USSR. The process under the old regime went through a series of committees and could take years to approve a venture. Today, a company has to submit documents such as application for business with the Russian, bank statements, nature of the business to be conducted. Virtually all viable concerns are approved if they have technology or capital to offer.

The quality of work performed by Russian personnel has come into question but is not a problem. Workers in Russia are often better qualified for the jobs they are performing than their American counterparts.

Logistically, Russia has few problems. The road system is adequate for any amount of traffic. The routing of the roads takes commerce to the areas in which it is needed. The ports need work and such work is planned for St. Petersburg to include new storage facilities.

Russia is disappointed in the types of ventures that are being established. Russia wants production and manufacturing ventures that will engage in substantial technology transfers. Many of the ventures being introduced to Russia are in the distribution area which often puts

Russia in the position of being a middle man. While some service oriented businesses are of interest, Russia is very anxious to harness production ventures and the expertise that goes with them.

There was no comment on the ruling allowing 100 percent ownership of ventures other than to say the policy will hopefully benefit all parties.

Marta Farion

The ruble has virtually been phased out of Ukraine and will be replaced at any time by the hrivna as Ukrainian currency. The market place will decide how convertible the hrivna will be. New laws are in place in Ukraine to make it easier for a western business to enter into ventures. These laws have recently gone to print, consequently they have not been promulgated widely nor have they been analyzed by western companies.

There does not seem to be any cultural issues of note between the U.S. and Ukraine. Ukraine has the highest literacy rate of any of the CIS republics therefore Ukrainians are more familiar with western ideas than other republics because of their ability to read books and articles. The concept of operating for profit is still an unfamiliar idea for Ukrainians but it is felt this concept will be learned quickly once its social advantages, such as competition, are felt.

The US seems to be lagging other countries such as Poland and Germany in establishing ventures in the Ukraine. This is probably because of the history of conservative business practices in the US as well as the short term reward mentality of US company. Getting involved with a venture that will take years to turn a profit is sometimes hard to sell to stockholders.

Any US company wishing to do business with Ukraine must file some initial documents with Ukrainian government but the venture itself is entered into with a private Ukrainian company. This is attractive to foreign concerns since it minimizes government intervention. The Ukrainian official was not aware of any logistical problems facing US-Ukrainian venture efforts.

The addresses and telephone numbers of the Russian and Ukrainian representatives can be found in Appendix "C".

VI. Finding and Conclusions

Chapter Overview

This chapter describes and analyzes the interview findings and offers conclusions. After a brief discussion of general obstacles, the analysis is organized by sections of the interview questions: financial, cultural, organizational, and logistical issues.

Introduction

All of the research questions were of the open-ended type. This allowed the respondent much latitude to discuss their opinions and results from their individual venture. A simple key word or phrase enabled us to categorize the responses according to main headings of the investigative questions.

The respondents were allowed to expound when discussing each question and encouraged to delve into any area they thought might touch on the issues at hand.

Obstacles

The US wants access to CIS domestic markets while the CIS's main interest lies in export potential and western technology (Cornelius, 1992).

The CIS is being inundated with joint ventures other than those the CIS would prefer. Igor Faminski, member of

the State Foreign Economic Commission, says, " We are not absolutely happy. Very few [joint ventures] are in machine building and less than 10 percent are in consumer goods." Hotels and consulting firms are not what the CIS economy needs (1992).

Financial Issues. New republics are trying to get in on the economic rebirth. This effort has, however, hurt some US interests. Chevron lost \$20 million in development costs when the newly formed government in Kazakhstan insisted on renegotiating a contract that was entered into by the Soviet Union (Gailes, 1992).

The convertability of the ruble was a major concern to US companies. If these companies make a profit in rubles, and these rubles can not be exchanged, they cannot repatriate this money (Stokes, 1992). Therefore, this profit could not be used in other parts of their business. Even with the recent convertibility of the ruble (effective 1 July 1992) companies would be well-advised to keep as much money in the CIS as possible if they hope to be a part of the revitalization of the republics and thereby create and maintain a market for their products and services.

The CIS economy is under continuous restructuring. Their lack of experience in a free market economy is producing many fluctuations that will take some time before it settles down (Maselli, 1992).

Profits can now be expatriated, but this would have a devastating effect on the banking system and promote its collapse. The Chilewich corporation's policy is to keep the money in country with the long range view of helping to strengthen the CIS economy (Gailes, 1992).

One of the most pressing financial problems in US-CIS joint ventures is the non payment of bills on the part of the CIS partner. At least one American company has suspended operations until a repayment plan is worked out between the principles. The non-payment takes the form of downward adjustments in the amount of money promised by the CIS partner in the initial set up of the venture. Also, most of the resources used by the CIS partner in the venture are purchased on credit from US companies. Repayment of these debts is slow and is of concern to US companies.

The US companies seeking joint ventures with CIS entities are asked to provide credit worthiness documents prior to acceptance. This is an ironic twist given the financial trouble the CIS partners are experiencing. It is entirely possible that the CIS wants to ensure the stability of the US partner so that the US partner can withstand the financial problems of the CIS counterpart(s).

As was mentioned in the Control Data Corporation case study, the CIS entities have been reluctant to take advantage of EXIM Bank's service of guaranteeing loans and credit to third world countries. When asked about this

reluctance, representatives of the CIS insist there is no hesitation and that the CIS venture partners are looking into the possibility of using EXIM Bank's service. The hesitation on the part of the CIS is their inability to repay debts in dollars at this point. The CIS would like to use the EXIM bank's services but simply can not afford an acceptable repayment schedule.

The EXIM Bank does not consider the CIS as being credit worthy for more than one or two billion dollars (Browning, 1992). With the current lack of hard currency and a banking system in disarray in the CIS, any entity in the CIS could have difficulty repaying their loans. Many new US partners have not addressed the subject of repatriation of funds in concrete terms because of the instability of the CIS economy.

Cultural Issues. There are numerous cultural differences that affect joint ventures with the CIS, such as education, leadership practices, and the work environment. American businesses will be frustrated by their CIS partners' poor business sense. Alexander Yakovlev, the Russian trade representative to the US, says universities in the CIS must revamp their management courses to reflect a capitalistic market approach (1991).

Education. One of the positive notes to communism in the CIS was the degree of technical education provided by the state. As a result of this education the workers are

accustomed to learning complex concepts quickly. This reduces the time spent learning and training personnel thus enabling workers to become productive in less time than would have been the case without such an educational system (Maselli, 1992). Although the CIS management force is very well educated, their exposure to the various Western styles of management and production methods is lacking.

Yakovlev maintains that the US and CIS University systems are much more similar to each other than to many of the western European countries. The exception to this similarity is the study of business management. The CIS universities will need help in the transition to a free market business curriculum (1992).

Leadership. A vertical line of authority has one overall manager with few or no mid-level managers. The workers in the CIS have grown accustomed to this type of hierarchical system. US management practices lean toward a more horizontal approach to corporate structure. US managers of the joint venture fill the mid-level positions and educate their CIS subordinates in the ways of western management (Maselli, 1992).

Work Environment. Some of the US joint venture partners have had to deal with CIS workers who were neither motivated nor accustomed to producing quality work (Gailes, 1992). Many workers are learning about work incentives for the first time. Monetary incentives were never a factor

under the old system. Under the old system, it was almost impossible to be fired from a job since the government would rather subsidize a person while employed instead of one who was wandering the streets looking for a job. Under the free market system, the CIS employee will have to be exposed to the incentives of the Western worker and from this exposure, hopefully, will come job satisfaction as well as higher and better productivity.

Another obstacle to overcome is the denial of some CIS representatives that the worker in the CIS is behind his US counterpart in some fundamental areas. The official position of the Russian republic is that the CIS worker is better qualified to do his job than the US worker (Dmitriev, 1992). While this attitude may sustain the Russian worker's sense of pride, it is frustrating to hear a Russian official deny that there is any cultural difference between US and CIS workers. Realization and admission of a short-coming is vital if a competent work force is to be cooperatively developed.

The goals of the US and CIS partners are incongruent. The US corporate goals are financial in nature and all efforts are aimed toward reducing costs and increasing throughput. The CIS goals, on the other hand, have been based on continually increasing production with no regard to the financial consequences. Their idea of improvement was to produce more of a particular commodity during each

succeeding time frame than the central planners required (Maselli, 1992).

Organizational Issues. The identification of key decision makers has been a problem since the dissolution of the Soviet Union. Some officials of the new CIS government are holdovers from the old regime. The changing political environment has found these former officials attempting to maintain their spheres of influence by refusing to accept the new order (Gailes, 1992). Most of the country is trying to move forward at a quick pace but the holdovers are bogging down the progress to a new CIS order.

For example, US companies trying to start up joint ventures may be frustrated by the unwillingness of some of the old central government officials to streamline the bureaucratic process.

According to a CIS trade representative, the application procedure is greatly streamlined compared to the process encountered in the USSR. US companies are finding that negotiations no longer have to pass sequentially down through a maze of governmental agencies but rather the application must pass through many levels simultaneously. This makes the process faster than under the old system. The process is still somewhat tenuous because many people in the system can refuse an application for various reasons. In fact, however, any venture will be approved if it has money and technology to offer the CIS partner.

Technology transfers are highly valued by the CIS. The CIS officials are very disappointed with the number of service operations that are being imported. They prefer manufacturing and production operations that will share their technology. US companies have tended to hold back in the area of technology transfers when it involves certain industries that have proprietary facets such as computer and chemical technology. In some of these cases, the technology transferred is not state of the art but is sufficient considering the CIS's stage of economic and technological development.

There has appeared emerging energetic leaders of industry, according to Gary Gailles. An example is Alex Ermiskin of the Cherotov Aviation factory who took this former government run business into privatization through the use of western economic applications (1992).

Until mid-1991, the Soviets insisted on at least 51 percent ownership by the Soviet company and report to a Soviet board of directors. Now, western companies can own 100 percent of the enterprise and report to only the main corporation.

Logistics Issues. The logistics arena is a major player in joint ventures with the CIS. Notably, transportation and personnel items have proven to be challenging to US partners in joint ventures. For example, in transportation, a US company is mainly concerned with the

most cost efficient method. In the CIS, the condition of the transportation system itself is the major issue, thereby subordinating the cost aspect.

Transportation. The ports in the CIS are terribly overcrowded and storage facilities at the ports are inadequate to handle the large amount of cargo now entering the CIS from around the world. Most of the US joint venture companies that ship bulk cargo by sea are affected. The warehouses at the ports are primarily government owned and are unavailable, at present, for private use. Those that are privately owned are products of joint ventures and have not had enough time to prosper. The Russians realize the problems with the current ports and indicate they will be working on the port at St. Petersburg to improve the sea transportation system. As troublesome as the ports and their associated facilities can be, the real trouble begins when trying to get the cargo from the port to its final destination. The rail system is the most dependable mode of transportation but it is rife with poor scheduling and unreliable rail car availability. Rail cars are subject to diversion at virtually any point along the system in any of the republics when a greater need is perceived by the local governments.

The trucking industry in the CIS is attracting some joint venture attention, however the poor road system in the CIS tends to scare off potential partners. The roads are

not of a quality that can stand up to high density traffic without constant repairs. The road network itself is inadequate in that it does not serve as many places as US and other countries would like. The Russians do not see their road system the same way US companies do. They believe their roads are adequate enough to handle any type or amount of traffic needed for business operations and product delivery. On the topic of road networks, the Russian representative maintains that the road system is taking business where it needs to go. This seems to be a view one would expect to experience in the USSR. This outlook is not shared, however, by the majority of CIS business managers who are open to western logistical innovation.

Communications. Communications can present some pretty interesting challenges to western business concerns. The telephone system is antiquated and needs a complete system overhaul. Making simple party line calls crosstown can result in innumerable disconnections and wrong party connections. The communications systems affect many of what Western world has come to see as vital business equipment such as computer modems and facsimile machines. Without a better communications system than is presently in the CIS business operations will be somewhat hampered.

Personnel. Some companies must compensate US employees living in the CIS due to, according to western

standards, primitive living facilities. Often the apartments provided to US employees are substandard such as not having running water or electricity (Cornelius, 1992). Also, some companies have decided to entice American employees to work in the CIS by setting up stores for the exclusive use of its employees. These stores will sell hard-to-get items. This will make standing in long lines unnecessary for these employees.

Future Research

The transition to a capitalist economy in the CIS is changing daily. This study looks at this environment during a narrow time span. Any future research will have to determine the nature of any changes to the free market system in the CIS since publication of this document. There is no area of this document that is final in its assessment. Therefore, the opportunity for research is abundant in the realm of joint ventures between the US and the CIS.

Appendix A: Interview Questions

Dear Mr.

Below, please find the questions we spoke of relating to your company's venture(s) with the Commonwealth of Independent States. My thesis partner or I will contact you to arrange a convenient time for a telephone interview to discuss your responses. The interview should not take more than 15 minutes.

1. What major stumbling blocks and/or successes have you experienced in your venture with the CIS?
2. Has your company experienced any cultural problems at any point and what was the nature of these problems?
3. Was there any difficulty in determining which party would be responsible for different aspects of the venture?
4. How has the conversion from the USSR to the CIS affected this venture?
5. Could you comment on some of the logistics aspects of the venture (i.e. raw materials, personnel, equipment, transportation, etc.)?

Your answers to these questions will aid our research immeasurably. Thank you for your attention in this matter. We look forward to talking to you.

Sincerely,

Brian P. Davis, Capt, USAF

Appendix B: Follow-up Letter

Dear Mr.

I just wanted to drop you a line to thank you for being kind enough to grant an interview to me on May 4, 1992. Your information concerning your company's dealings with the Commonwealth of Independent States was invaluable. Our thesis is well on its way thanks to your help.

Sincerely,

Daniel L. DeMott, Capt, USAF

Appendix C: Corporate Interviewees

William Cornelius, Director of Trade Policy
Dow Chemical Corporation
2020 Dow Center
Midland MI 48674
(517) 636-9101

Gary Gailles, Vice President
Chilewich Corporation
12 Water Street
White Plains NY 10601
(914) 997-2000

Alfredo Maselli, Russian Projects Representative
Honeywell, Incorporated
2701 4th Avenue, South
Minneapolis MN 55408
(612) 870-5200

Robert Nenovich, Program Manager for Technology Transfers
Control Data Corporation
8100 34th Avenue, South
Minneapolis MN 55440
(612) 482-4730

Calvin Remmert, Manufacturing Manager for Russia
Cameron Iron Works
13013 Northwest Freeway, P.O. Box 1212
Houston TX 77251
(713) 939-2211

David Roylance, Coordinator of Special Projects for Russia
Conoco, Incorporated
600 North Dairy Ashford Road
Houston TX 77079
(713) 293-1930

Fred Stokes, Director of Policy Planning
Monsanto Company
800 North Lindbergh Boulevard
St. Louis MO 63141
(314) 694-2876

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Vita

Captain Brian P. Davis was born on 26 April 1952 in Washington, D.C. He graduated from high school in Riverdale, Maryland in 1970. After serving for five years in the U.S. Air Force he worked for three years as an assistant surveyor for the Southern Railway Corporation in Washington, D.C. Captain Davis then attended the University of Maryland on a full time basis receiving his Bachelor of Arts in Psychology in 1983. Upon graduation he became an account executive for Merrill, Lynch, Pierce, Fenner, and Smith stock brokerage firm in Annapolis, Maryland. The next year he applied to and was accepted into the U.S. Air Force Officer Training School (OTS) program. Upon successful completion of OTS in January 1986, Captain Davis was assigned to the 325 Supply Squadron at Tyndall AFB, Florida and served as the Branch Chief for the Combat Operations Support Branch and as the Fuels Management Officer. In 1988, he was assigned to the 48 Supply Squadron at RAF Lakenheath, England and served as the Material Storage and Distribution Branch Chief. Captain Davis held this position until entering the School of Systems and Logistics, Air Force Institute of Technology, in May 1991.

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Captain Daniel L. DeMott was born on 23 July 1957 in San Antonio, Texas. He graduated from high school in 1975 on Okinawa, Japan. Upon graduation, he entered the U.S. Navy and served six years as a Sonar Technician, serving on board two guided missile destroyers, the USS Joseph Strauss, and the USS Berkeley. After the expiration of his enlistment, he entered Columbia College from which he received the degree of Bachelor of Arts in Business Administration (Management) in 1985. He then entered the U.S. Air Force via Officer Training School. Entering active duty, he was assigned to the 56th Tactical Fighter Wing at MacDill AFB, Florida as a contracting officer. In July of 1988 he was transferred to Aviano AB Italy as the Deputy Commander of the USAFE Contracting Region-Italy until entering the School of Systems and Logistics, Air Force Institute of Technology, in May 1991.

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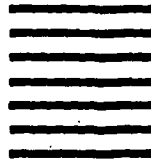
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